

First Year Evaluation of Riverboat Licensee for Harrison County, Indiana: Caesars Indiana

November 20, 1998-December 31, 1999

June 2000

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Introduction

The Riverboat Gambling Act, effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. One of the statutory criteria for issuance of these licenses is the applicant's ability to promote economic development in the home dock area while best serving the interest of the citizens of Indiana. As an aid to fulfilling its legislative requirements, the Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to perform the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding licenses. As part of that contract, the Center has committed to monitor over time the economic impacts and fiscal returns from each riverboat operation.

On May 20, 1996, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Harrison County, Indiana. Caesars Indiana (Caesars) formerly known as RDI/Caesars Riverboat Casino, LLC opened on November 20, 1998. This report is an evaluation of its first year of operation.

Project Development and Investment

Development Activities

In the Certificate of Suitability (referred to throughout as Certificate), Caesars committed to spend approximately \$228.2 million on project development, in addition to pledging to Harrison County other incentives totaling several million dollars. As Table 1 illustrates, through 1999, it had spent \$304.7 million and is projected to spend an additional \$85.3 million to complete the project.

The 5,000-passenger riverboat opened with 93,000 square-feet of gaming space. A 170,000 square-foot permanent pavilion and a 1,650-space parking garage have been completed. The people mover and buffet opened in December. The gift shop and coffee shop are scheduled to open in January and April 2000, respectively. The porte cochere (front entrance) is scheduled to open in February. A high-end restaurant is scheduled to open in July and a dining and entertainment venue is scheduled to open in September 2000. Caesars has spent over \$11 million on an archaeological dig on its property. The presence of the dig has delayed construction on the 500-room hotel. It was scheduled to begin immediately after substantial completion of the guest pavilion but will now be delayed until completion of the dig. Construction on the golf course is scheduled to be completed by the end of 2001.

Table 1: Actual Versus Predicted Development Costs (\$ 000s)

Development	Certificate of Suitability	Actual	Difference
Land	\$20,000,000	\$20,697,056	\$697,056
Site Improvement	\$9,284,000	\$19,512,024	\$10,228,024
Temporary Facilities, Parking, Transportation	\$23,680,000	\$19,319,746	(\$4,360,254)
Construction: Support Facilities	\$40,425,000	\$45,137,215 ¹	\$4,612,215
Construction: Boat and Marine Facilities	\$49,416,000	\$87,753,558	\$38,337,558
Furniture, Fixtures, and Equipment	\$31,100,000	\$47,221,065	\$16,121,065
Hotel, Furniture and Fixtures	\$35,950,000	\$1,325,825	(\$34,624,175)
Tennis and Golf Complex	\$7,000,000	\$4,451	(\$6,995,549)
Pre-Opening Expenses	\$5,000,000	\$21,085,275	\$16,085,275
Working Capital	\$2,000,000	\$0	(\$2,000,000)
Financing and related expenses	\$4,303,000	\$42,676,168	\$38,373,168
Total Development	\$228,158,000	\$304,732,383	\$76,743,383

¹Includes \$5 million to Harrison County Foundation

As Table 2 illustrates, Caesars is current with regard to all of the additional commitments except for contributions to utilities, which is under negotiation.

Other Commitments

Table 2: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 12/99	Status
A) Contribution	\$5,000,000	Harrison County Community Fdtn.	\$5,000,000	Completed Year 1
B) Contribution	1.5% \$0-100,000,000 AGR .25% \$100,000,001-\$150,00,00 AGR 3.75% \$150,001-\$200,000,000 AGR 7.5% Annual AGR over \$200,000,001	Harrison County Foundation (see below)	\$1,660,441 ²	Ongoing
C) Contribution	.5% \$0-100,000,000 AGR .75% \$100,000,001-\$150,00,00 AGR 1.25% \$150,001-\$200,000,000 AGR 2.5% Annual AGR over \$200,000,001	Floyd County Foundation (now Caesars Riverboat Casino Fdtn.)	\$553,480 ²	Ongoing
D) Advance to the County	\$1,750,000	Harrison County	\$1,750,000 ³	
E) Road Improvements	Not specified	NA	\$6,403,365	Completed Year 1
F) Contributions to utilities	\$2,640,000	Elizabeth Water Co.	\$0	Under negotiation
G) Emergency	Not specified	Fire, Police,	\$540,588	Completed

Response Requirements		Ambulance		Year 1
H) County Legal Fees	\$250,000	Harrison County	\$211,228	Ongoing

²In escrow until second amendment to the development agreement finalized.

³This advance was taken against the first funds due to the Harrison County Foundation.

The Certificate called for Caesars to make contingent contributions to the Harrison and Floyd County Foundations in the amounts described above. Until those were established the funds have been kept in escrow. The Floyd County Foundation has been established and is known as Caesars Riverboat Casino Foundation, Inc. The County and Caesars have finalized a development agreement that would allow the portion that was allocated to a separate Harrison County Foundation is given to the previously established Harrison County Community Foundation.

As listed above, Caesars provided a \$5 million incentive to the Harrison County Community Foundation. Table 3 lists the \$588,096 in grants that have been awarded by the foundation from those funds through 1999.

Table 3: Harrison County Community Foundation Awards

Name	Project	Award
American Legion	Renovation of Community Room	\$5,000
Corydon VFD	Personnel Equipment	4,000
Franklin Twp VFD	Personnel Equipment	4,000
Furthering Youth, Inc.	Operating expenses for professional	10,000
HC Community Services	Operating expenses for priority services	37,000
Junior Achievement	Expand programs to other schools	4,000
Lanesville Heritage	Community Building Equipment	5,000
Leadership Harrison County	Operating expenses for professional	10,000
Legal Services Org.	Paralegal for abuse victims	15,000
Maternal & Child Health	Prenatal lab tests and ultrasounds	8,000
Our Place	Drug Prevention Ed.	2,500
Palmyra VFD	Land for new Bldng. At Central Barren	6,000
Ramsey VFD	Sewage System	6,000
Corydon	Scholarships	27,000
Lanesville Community	Scholarships	10,000
North Harrison HS	Scholarships	31,000
South Central HS	Scholarships	12,000
HC Commissioners	Veterans Van	13,500
Blue River Services	Medical Transportation	13,000
Boy Scout Troop 71	Camping Equipment	1,500
Hoosier Elm DAR	Building repair	5,000
The Nature Conservancy	Nature preservation	7,000
Big Brothers/Sisters	Staffing	9,360
Center Women & Families	Supplies	3,500
HC Community Services	Staffing	21,204
HC Maternal & Child Hlth	Contractual services	4,000
Hayswood Park	Playground equipment	16,355
Junior Achievement	Class program	75,000
Lanesville Jr-Sr HS	Eagles challenge	2,396
Leadership HC	Training program	3,000
Legal Services Org of SI	Paralegal services	3,000

New Middletown PTO	Ballet & uniforms	2,350
SCI Council For Aging	Transportation	6,800

Table 3: Harrison County Community Foundation Awards (continued)

Name	Project	Award
Boy Scout Troop 47	Camping Equipment	2,000
Heth-Washington Elem	Books for accelerated reading program	2,500
Corydon	Scholarships	20,000
Lanesville Community	Scholarships	20,000
North Harrison HS	Scholarships	20,000
South Central HS	Scholarships	20,000
Harrison Twp VFD	Air compressor	10,000
Corydon Central JHS	Silent reading	5,000
St. Joseph School	Nature field trips	2,650
Future Farmers of America	Equipment/jackets	2,289
HC Community Services	CSR Meeting	2,465
Furthering Youth, Inc.	Learning thru the arts	6,000
Center Women & Families	Caseworker support	5,000
SH Development corp.	Roof replacement	45,000
Main Street Corydon	Monument/sculpture	5,000
Hayswood Theater	Purchase clavino	3,000
Indian Creek Trail	Bike/walk trail	15,000
Lanesville Heritage	Book publishing	10,000
American Heart Association	3 defibrillators	8,727

Community Activity

Caesars has contributed in-kind donations and monetary contributions to over 50 organizations including Fund for the Arts, Boys and Girls Club, Harrison County Agricultural Society, the Indiana University Foundation, the Indiana Southern University Foundation, and the Harrison County Chamber of Commerce. Its employees gave \$116,000 to the United Way with a match of \$10,000 from Caesars. It was the largest contributor in Harrison County. Caesars also sponsored several events including the Harrison County Rodeo, Cousin Willies Popcorn Festival, Southern Indiana Chamber of Commerce Golf Scramble, Lanesville Heritage Weekend, and Miss Rodeo Indiana 1999.

Minority/Women Business Enterprise

The Office of Minority Business Development and the Indiana Gaming Commission currently are reviewing the information provided by Caesars to determine compliance.

Economic and Fiscal Impacts

Employment and Earnings Impacts

Caesars began hiring and training the majority of its employees in May 1997. Caesars leased a building in Corydon and contracted with IVY Tech and Indiana University Southeast to provide space for training. Caesars conducted its own training for all riverboat-related positions, including dealers, cashiers, slot representatives and technicians, and surveillance personnel.

As Table 5 indicates, Caesars estimated in its application employment of 2,440 persons in the casino and hotel for annual wages totaling approximately \$50.1 million. As of December 1999, Caesars had 2,065 employees, not including the hotel. For 1999, salaries and wages were \$49.6 million, including tips to dealers (but not to bar and wait staff). Full- and part-time employees receive benefits including medical, dental vision, life insurance, short-term disability, and tuition reimbursement and matching contributions to a 401k program.

Table 5: Comparison of Forecast to Actual Caesars Operation

Category	Application Forecast Year 1	Actual 1999	Difference
Employment as of	2,440	2,065	(375)
Total Wages, Tips, & Benefits	\$50,148,000	\$49,565,741	(\$582,259)
Attendance	4,200,000	4,250,267	50,267
Gross Gaming Receipts	\$210,000,00	\$157,349,624	(\$52,650,376)
\$ per Patron per Cruise	\$50 ⁴	\$37	(\$13)
Gaming Tax (State)	\$31,500,000	\$23,605,196	(\$7,894,804)
Gaming Tax (Local)	\$10,500,00	\$7,868,398	(\$2,631,602)
Admission Tax (State)	\$4,200,000	\$4,250,267	\$50,267
Admission Tax (County) ⁵	\$8,400,000	\$8,500,534	\$100,534

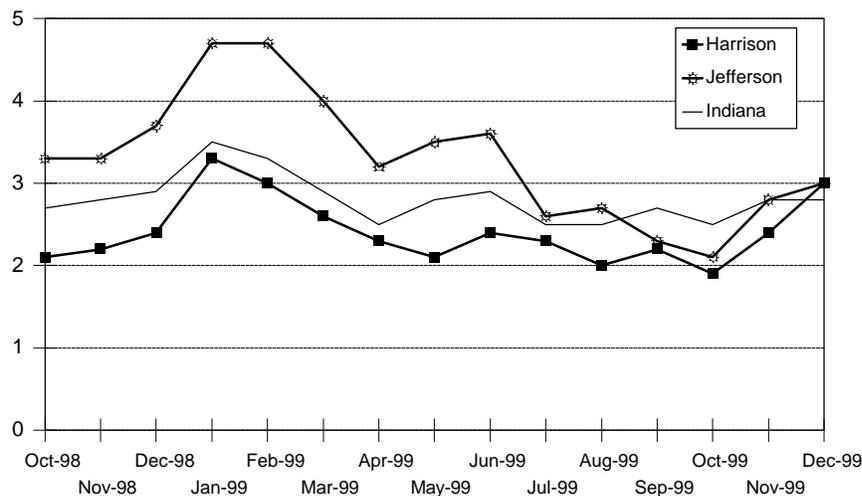
⁴Applicant average \$52

⁵No incorporated city

As Table 5 illustrates, in 1999, Caesars had adjusted gross gaming receipts of \$157.3 million, \$52.7 million or 39 percent less than its application estimate. It had total gross revenues (includes casino, food and beverage, parking, gift shop, and other revenues) of \$168.7 million, \$86 million less than the \$254.7 million estimated in its application. Several of the features included in the original estimates, including the hotel, golf course, and gift shop, were not open in 1999. Though attendance was slightly greater than expected, Caesars overestimated the receipts per passenger per trip by \$13 per patron. Total local taxes (city and county admission taxes plus local gaming tax) were \$16.3 million, or \$2.6 million less than the projection of \$18.9 million in Caesars' application.

As Figure 1 illustrates, Harrison County's unemployment rate was below the state average in 1999, while the unemployment rate in Jefferson County was slightly higher than the state average. In December of 1999, both Harrison and Jefferson County had unemployment rates of 3.0 percent while the state average was 2.8 percent. The opening of riverboat in the area had an effect on unemployment as well as the overall growth of the economy in the region.

Figure 1: 1999 Unemployment Rate:
Harrison and Jefferson Counties and the State of Indiana



Source: Center for Urban Policy and the Environment

As of December 1999, 40.2 percent of Caesars employees were women, 12.9 percent were minorities, 20 percent were from Harrison County, and 33 percent of employees came from out-of-state. In its application, Caesars made commitments to hiring women and minorities at different levels for type of employee. As Table 6 illustrates, it has met or exceeded almost all of its commitments. While it did not make a commitment for administrative employees, they are included for illustrative purposes.

Table 6: Caesars Indiana Hiring Commitments, December 1999

	Minority			Female		
	Commitment	Actual	Difference	Commitment	Actual	Difference
Managers	5.0%	13.0%	8.0%	20.0%	40.8%	20.8%
Gaming Employees	10.0%	15.5%	5.5%	45.0%	54.1%	9.1%
Hospitality	10.0%	10.0%	-	45.0%	74.3%	29.3%
Custodial Maintenance	10.0%	13.1%	3.1%	20.0%	43.0%	23.0%
Service Workers	10.0%	8.4%	(1.6%)	45.0%	55.0%	10.0%
Administrative	0.0%	15.2%	15.2%	0.0%	72.2	72.2%
Total	9.4%	12.9%	3.5%	40.2%	54.0	13.8%

Local Economic Impact

In addition to the gaming taxes paid to the city and state, Caesars paid \$464,193 in sales and use taxes and \$37,656 in property taxes. Payroll of \$49.6 million and local purchases of \$6.3 million for operating and \$33.3 million in construction also contributed to the local economy. County officials indicated that growth in the number of county's restaurants and hotels is not attributable to the riverboat.

Impact on Tourism

In 1999, Indiana residents made less than 30 percent of the trips to Caesars, with most of those trips local. In 1999, Caesars had 4.25 million admissions. This attendance was slightly greater than Caesars attendance projection of 4.2 million in its application.

According to the Harrison County Convention and Visitors Bureau, hotel occupancy in Harrison County has increased from 1998 to 1999. The Convention and Visitors Bureau partially attributes this to the visitation to the riverboat. Caesars plan to begin construction of its own hotel in early 2000.

Legal Issues

Caesars has 16 lawsuits pending. One is employment related and the remainder are primarily mechanics liens and admiralty claims related to the bankruptcy of Service Marine, Inc., the general contractor for the vessel. There were a total of 95 arrests for incidents on Caesars property in 1999. The largest categories were cheating at gambling games and public intoxication. Less than .00002 percent of visits in 1999 resulted in an arrest. Caesars checked the identification of 72,608 guests and 966 were turned away for no identification or for being under 21.

According to the Harrison County Sheriff's office, the area surrounding the riverboat has not experienced additional criminal activity that can be attributed to Caesars presence.

Other Impacts

There are other possible impacts that can result from the location of a riverboat in a community. For example, compulsive gambling might become a problem. There also might be decreases in patronage for existing businesses, higher rates of bankruptcy, and a greater need for social services. Last year one call for help with gambling problems was made by a Harrison County resident to the "Deal With It" line that is contracted through the Commission for a Drug Free Indiana. There were four calls from Floyd, five from Clark, and no calls from Jefferson County but there were 50 calls from Kentucky. The calls are not broken out by location in Kentucky.

Caesars has made efforts to minimize the negative impacts of gambling. It has provided a one-hour training course to all of its employees on how to recognize and refer problem gamblers. This training will assist employees in identifying possible compulsive gamblers among patrons and employees. It also has a self-ejection program in which, upon request by a patron, they are removed from personal check cashing privileges, credit privileges, direct mail marketing materials, and promotional mail at Caesars. The minimum amount of time this can last is six months and after that time must be rescinded in writing.

Summary of Findings

Caesars has met or exceeded the requirements of its Certificate in the following areas:

- Caesars has spent a total of \$304.7 million on the basic development of the project, \$ 76.7 million more than estimated. It projects that it will spend an additional \$85.3 million to complete the project.
- Caesars is on schedule with almost all of its incentive payments.
- Caesars has sponsored many community events, its senior management is represented on many boards, and its employees contributed \$116,00 to the United Way with a \$10,000 match from Caesars.
- Caesars has met or exceeded almost all of its minority and female hiring goals.
- Caesars paid \$464,193 in sales and use taxes and \$37,656 in property taxes.
- Caesars has been proactive in developing programs for compulsive gambling.

Caesars has not met its projections in the following areas:

- Employment totaled 2,065 employees, 375 less than projected, and wages, benefits, and tips were \$49.6 million, slightly less than projected but the hotel and restaurants are not complete.
- Gross gaming receipts were \$157.3 million, \$52.7 million less than the \$210 million projected.
- State and local gaming taxes were \$44.2 million, \$10.4 million less than projected.